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Egypt

Retail Food Sector

Annual

2004

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Report Highlights:
Food sales are expected to grow as a result of vast improvements in packaging, expansion of local supermarkets/hypermarkets, wider choice of products and greater brand awareness. Large supermarket chains will continue to expand their distribution network as they penetrate other cities in Egypt.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Cairo [EG1]
[EG]

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I. MARKET SUMMARY

Retail sales have increased dramatically due to the expansion of international chains, variety of products on offer, and an increase in the level of income and brand advertising. The food retail sector in the Egyptian market continues its rapid development, which began with the opening of 18 Metro outlets, a local supermarket chain, and the presence of a number of multi-national firms, such as Shoprite (South Africa), Carrefour (France) and Monoprix (France) which soon to open.

a) General Background

- Population of Egypt is around 69.2 million; the largest cities are Cairo (18 million) and Alexandria (12 million).
- GDP (US dollars / FY 02/03): 76.6 billion
- GDP per capita: $1,470 in 2002
- Inflation rate: 3.9 percent
- Total ag. imports (2003): $2.8 billion
- Total U.S. ag. imports (2003): $1.007 billion
- Total U.S. consumer oriented products: $41.2 million
- U.S. ag. market share: 36%

b) Highlights of recent trends that impact the retail:

- The devaluation of the Egyptian pound, which took place on January 2003, has led to an increase in the price of imported products by 45 percent and 30 percent for the local products. The devaluation had a strong impact on retail sales, however, all sectors began to recover by mid-2003 as consumers adjusted their expenditures to the new price levels.

- The opening of City Stars early 2005 will be a dramatic boost to the Egyptian retailing industry. This center will be the largest shopping mall in the Middle East and North Africa, with a 14,000 square meter hypermarket, three international hotels, 16-screen multiplex cinema, food court, living compound, the largest playing center for kids, a medical facility, and a world class business center with 70,000 square meters serving multinational and major local companies.

- The introduction of hypermarkets and superstores is helping to re-shape the retail industry. Carrefour, which was the first international hypermarket to open in Egypt, succeeded in changing the way Egyptians shop, making it possible to buy everything under one roof with a weekly shopping list rather than visiting a series of small groceries, meat and produce vendors on a daily basis. This change has prompted some local retailers to reinvent themselves.

- The Sinai and Red Sea region is currently Egypt's main tourist destination. It includes the cities of Hurghada, Sharm El Sheikh, Dahab, Soma Bay and Marsa Alam, all of which are heavily populated with tourists from all over the world. The influx of tourists in such areas has encouraged food retailers to open outlets in Hurghada and Sharm El Sheikh.

- Egyptian consumers are beginning to expect cleanliness, quality, and wider variety of products. Consumers are currently asking for convenience, and shopping at supermarkets is becoming a leisure activity. Consumers depend less on neighborhood grocery and convenience stores except for last minute, spur of the moment food needs. In the suburbs and less developed areas of Egypt, grocery and convenience stores still play an important role in the retail business.

- The average consumer spends about $12 per basket. However, it varies from one area to another. Middle and upper-middle income shoppers are drawn to supermarket chains.

- Home delivery service is becoming very popular among the large retailers. The objective of the delivery service is to create customer loyalty. None of the retailers charge extra fees for the delivery.

- Internet retailing is a new trend that is currently booming. Many retailers are currently viewing the internet as the number one media for advertising their products. The current IT boom in Egypt is attributed to the government's significant achievement in launching the Free Internet Model (FIM) in early 2002. As a result, Internet access became very affordable for the average citizen. Many websites have been launched towards enhancing consumer expenditure, such as www.waffar.com and www.otlob.com. Wafar.com displays all offers and promotions while otlob.com is the number one online source for home delivery.

- Distribution/retail of alcoholic beverages is limited to a few authorized dealers only.

- The United States of America, France, Germany, Italy, Switzerland, Greece, Holland, Denmark, and South Africa are the dominant suppliers of consumer-ready food products to Egypt.

- The following tables illustrate retail sales as a percentage of GDP and consumer expenditure and advantages and challenges in this market:

TABLE 1: RETAIL SALES

EGYPT	2000	2001	2002	2003
Retail sales as % of GDP	26.1	26.4	26.6	25.9
Retail sales as % of consumer expenditure	33.0	33.2	32.4	31.4
Source: Euromonitor from ONS Retail Sales and CAPMAS				

TABLE 2: ADVANTAGES / CHALLENGES IN THE EGYPTIAN MARKET

ADVANTAGES	CHALLENGES
Out of 69 million Egyptians, about 12 million can afford to purchase imported food products.	Lack of product availability and limited income. Egyptian import regulations and labeling requirements are too stringent.
Products perceived as both western and new-to-market have a wide appeal to Egyptians. U.S. products are perceived as "high quality."	Lack of U.S. supplier interest in the Egyptian market. With the EU-Egypt Partnership Agreement, import tariffs on most European products will be cut substantially or eliminated over the next 12-15 years. The agreement may lead to displacement of some U.S. agricultural

ADVANTAGES	CHALLENGES
	products especially in the processed food sector unless positive trade policy changes can be made between the U.S. and Egypt.
Expansion of the number of supermarket chains. International companies interested in the Egyptian market include, Carrefour, Shoprite and Monoprix (soon to open).	With the growing size of supermarket chains, the desire to introduce a broad array and new-to-market products is strengthening.

II. Road Map to Market Entry for U.S. Suppliers

A. SUPERMARKETS, HYPERMARKETS, AND DISCOUNTERS

International Supermarkets and Hypermarkets

- Two multi-national food retailers have started to invest in Egypt:
  - Shoprite a South African chain is currently operating seven outlets with a plan to open two more within one year. Their strategy is to offer competitive prices to maintain consumers and to deal directly with manufacturers and not distributors. Shoprite does not compete with retail stores such as, Metro and Alfa market, but rather with Egyptian wholesalers. They import directly for their supermarket chains from South Africa, Italy, Hong Kong and Singapore.
  - The French chain Carrefour has revolutionized the retail industry in Egypt by introducing a new format for hypermarket shopping, even with the presence of the local hypermarket Alfa. Carrefour opened two hypermarkets; one in Cairo and one in Alexandria. The first Carrefour opened in December 2002, covering 28,000 sq. meters of retail space. The second opened in January 2003, covering 32,000 sq. meters. Their plan is to open two more outlets by 2005. Their focus is on middle-income families. Carrefour is now reporting an average of 15,000 visitors per day on weekdays and 38,000 visitors on the weekends; an average of 7,000 transactions a day during week days and 12,000 daily on weekends. They rely primarily on local goods.
- The French chain Monoprix, which is expected to open two outlets by 2005, will feature more international products at lower prices.

Local Supermarkets and Hypermarkets

- Metro, Egypt's largest food retailer, is currently operating 20 outlets in Cairo, Alexandria and Ismailia. Metro plans to expand in other governorates, such as Hurghada and Mansoura. This will add to the rapidly growing retail sector and services to consumers and strengthen Egypt's retail distribution network. Metro carries a variety of products including over 16,000 food items and 6,000 non-food items. Metro applied two recent developments in their chains:

  - Shop & Drop: A new service that revolves around the customer doing his own shopping and Metro will deliver to his door.
  - 19619 is a hotline number service designed to enhance the home delivery operations.

- The only local hypermarket currently operating in Egypt is "Alfa" Market. Currently, Alfa Market has six outlets. It was the biggest market in Cairo before Carrefour. Alfa carries about 70,000 items out of which 20,000 are food items. They provide to consumers other services, such as laundry service, video rentals, shoe repair service. Alfa Market has a strategy of conducting monthly discount promotions on various products in the range of 10-20%. Also, Alfa created several types of customer loyalty cards, such as “Family Cards,” offering 3-10% discounts.

- HyperOne, a second local hypermarket, is scheduled to open early 2005 on the outskirts of Sixth of October City near Cairo. The project will include a 10,000 square meter hypermarket, 20 shops, food court and a children’s entertainment area.

Discounters

- With the expansion of local supermarkets and international supermarkets and hypermarkets, discounters have recently upgraded their outlets and services to maintain their presence in the Egyptian market.

- Ragab Sons, El Mahmal and Abou Zekry are leading discounters who face fierce competition from supermarket chains. However, Ragab Sons implemented a promotion strategy on various products with discounts in the range of 10-20%. Also, the chain has extended its operating hours to 24-hour in some outlets.

ENTRY STRATEGY

FAS Cairo Upcoming Activities

- FAS Cairo plans to organize in-store and club promotions in Cairo. Promotions will include recipes using American ingredients presented by a famous TV dietitian. Live cooking presentations will be conducted inside the supermarkets, promoting U.S. brands during the recipe campaign.

- FAS Cairo organizes an Egyptian delegation to attend the FMI show every May. The objective is to acquaint Egyptian importers/distributors with the high quality of U.S. products. With the expansion of the number of supermarket chains and the introduction of hypermarkets in the Egyptian market, there is a good opportunity to introduce new-to-market products.

U.S. Suppliers Strategy

- U.S. exporters, Egyptian importers, and other traders may participate in FAS-sponsored promotions in Cairo and Alexandria. Activities will include in-store promotions and sports clubs (class A) promotions in Cairo to introduce new products or expand sales of U.S. products already available in the Egyptian market.

- U.S. suppliers should study the market and be prepared to comply with Egypt's labeling requirements, entertain orders that are smaller than normal, share a shipment with other U.S. exporters or mix products in one shipment.

Distribution Channels

Importers either sell their products to wholesalers who distribute food products to retail outlets, or sell directly to retailers. There are three supermarket chains, namely Carrefour, Oscar, and Shoprite that import food products directly.

Distribution channels for Food, alcoholic beverages and confectionery:

Food	➢ Hypermarkets and supermarkets ➢ Large grocery stores ➢ Medium and small grocery stores ➢ Hotels and Restaurants
Alcoholic Beverages	➢ Hotels ➢ Restaurants with license for alcoholic beverages ➢ Liquor shops (very limited)
Confectionery	➢ Hypermarkets and supermarkets ➢ Large grocery stores ➢ Medium and small grocery stores ➢ Petro/gas/service stations ➢ Kiosks ➢ Pastry shops

TABLE 3: COMPANY PROFILES (2003 / 2004)

Retailer Name & Outlet Type	Ownership	No. of Outlets	Locations (City)	Purchasing Agent Type
Metro	Local	20	Cairo, Alexandria, Ismailia	Direct / Distributor
Ragab Sons	Local	13	Cairo	Direct / Wholesaler
Fathalla	Local	8	Alexandria	Direct / Importer / wholesaler
Zahran	Local	5	Alexandria	Direct
Alfa	Local	5 (4 hypermarkets and one supermarket)	Cairo & Alexandria	Direct / Importer of household items
El Hawari	Local	5 (one of which is a modern supermarket) Plans to open a local hyper market in early 2005	Cairo	Wholesaler
Shoprite	International Joint Venture	7	Cairo	Direct / Importer
Abba	Local	4	Cairo	Direct / Wholesaler
Seoudi	Local	6	Cairo	Direct
Oscar	Local	2	Cairo	Direct / Agent / Importer
Carrefour	International	2	Cairo / Alexandria	Direct / Importer

Annual sales range from $7 - $100 million.

NO. OF OUTLETS	2000	2001	2002	2003
Supermarkets	390	437	492	524
Hypermarkets	2	3	6	7
Convenience stores	280	324	368	412
Cooperatives	258	248	241	235
Discounters	50	58	65	69
Independent Groceries	298	301	305	309

Demand and Supply Trends

- Mid to upper income consumers are becoming more and more demanding and are increasingly perceiving traditional supermarkets in Egypt as inadequate. Retailers have begun to become customer driven in their approach to staff, cleanliness, product range, and service.

- Consumption of prepared foods is growing rapidly. The increasing number of working women has led to an increase in purchasing power and the demand for ready made meals and/or easy to cook meals.

- The trend for purchasing frozen products is increasing.

- Choices for dietetic or low calorie food items are very limited.

- Most importers tend to bring in a wide range of products, but only in small quantities. With a few exceptions, wholesalers and retailers do not import directly.

B. CONVENIENCE STORES, GAS MARTS AND KIOSKS

Convenience stores, kiosks, and gas marts sell imported candy, snacks, juices and soft drinks. They do not import items, but make their purchases from local importers/wholesalers and distributors. The most popular gas marts are Mobil Mart, Esso, Caltex, and Shell. Exxon Mobil, namely On The Run, has recently introduced a new concept of convenience stores. They currently operate over 14 stores and have plans to open 25-30 stores within the next couple of years. These stores range in size from 60-200 sq. meters. They are open 24 hours and sell a variety of products including ready-made meals.

La Poire, a well-known patisserie and bakery chain, has conquered the convenience store sector through its chain La Poire Express. The stores are mainly located in gas stations like Cooperation, and offer a wide range of food and beverages, such as the chain's famous pastries.

- The average gas mart outlet is 30 to 50 square meters with a few exceptions (some Mobil Mart outlets have 100 square meters).
- Average sales differ according to the gas mart location; for example the medium outlet sales is $14,000 while the high outlet sales are $60,000 per month.

- Dealers are in complete control of the outlets.
- Gas mart profit margins are about 25 percent of sales.

Convenience stores are not suitable for marketing activities or introducing new-to-market products.

ENTRY STRATEGY

- U.S. suppliers must make sure that products are consistently available in the market in order to build product loyalty. Suppliers should appoint a reliable distributor to ensure that products are available in sales outlets at all times.

C. MOM AND POP SMALL INDEPENDENT GROCERY STORES

Small grocery stores offer a limited number of imported food products. It is perceived that the small grocery stores will diminish with the expansion of large supermarket chains and hypermarkets. Small groceries still account for the largest share of low-to-middle-income shoppers.

III. COMPETITION

In 2003, according to the UN Trade Data, total exports to Egypt from the U.S. for consumer oriented products were $41.2 million compared to $42 million in 2002. This decrease is attributed to the current political situation in the Middle East and the devaluation of the Egyptian pound, which has lost about 30 percent of its value against the dollar since January 2003. Major importers are reporting a decrease of 30 percent in sales as a result of these conditions.

The U.S., South Africa and European countries, mainly France, Spain, Italy, Germany, Greece, Holland and Denmark, are the dominant suppliers of consumer-ready products to Egypt.

The following table illustrates the Egyptian imports for the following productscategories:

(Jan -Dec. 2003 $ Mil)

PRODUCT	TOTAL IMPORTS	IMPORTS FROM THE U.S.	U.S. MARKET SHARE (%)	IMPORT TARIFF **
Fresh vegetables	1,656,635	0	0	20%
Dried vegetables	9,961,372	136,818	1	20%
Nuts	8,820,115	2,330,018	26	12% ***
Fresh fruit	16.329,101	2,226,387	14	30-40%
Apples	14,416,939	2,193,442	15	40%
Dried fruit	2,173,885	36,766	20	30-40% except for dried apricots and plums 22% ***
Coffee	6,306,337	65,010	1	5-30%
Spices	6,961,402	---------	0	20%

PRODUCT	TOTAL IMPORTS	IMPORTS FROM THE U.S.	U.S. MARKET SHARE (%)	IMPORT TARIFF **
Cocoa Paste	1,022,183	---------	0	5% ***
Cocoa Butter	1,022,531	---------	0	5% ***
Cocoa Powder	3,468,272	---------	0	5% ***
Beef canned (red meat prepared)	2,645,581	22,143	1	30-40%
Red meat (fresh, chilled, frozen)	150,453,207	1,828,521	1	5%
Bovine, offals frozen	35,508,805	35,490,316	100	5-40%
Frozen fish	61,164,501	2,018	0	5%
Biscuits/bread/pastry	2,158,070	184,280	9	40%
Jams	5,458,983	--------	---------	40%
Juices	1,215,330	31,346	3	30%
Sauces/mayonnaise/ ketchup	599,350	201,212	34	30%
Ice cream	755,415	2,901	0	30%
Beer	0.866	0	0	1200%
Wine	116,803	78,347	67	3000%
Pet food	1,477,218	565,988	38	30%
Pastas	593,339	27,736	5	40%
Cheese	7,975,343	290,841	2	22% ***
Butter	57,746,202	0	0	5-15%
Milk powder	33,837,190	1,600,713	5	5% ***
Pasteurized Eggs	100,129	10,032	100	30%
Grand Total	**433,945,104**	**49,518,277 ***	**11**	

* U.S. Trade data for consumer-oriented products for CY 2003 totaled $41.2 million compared to $49.5 million from the Egyptian data (CAPMAS). The difference might be attributed to the freight costs.

** Extra fees represent service tax, commercial and industrial profits, miscellaneous expenses vary from one product to another.

*** Tariff has been reduced.

Source: Trade data from the Central Agency for Public Mobilization and Statistics (CAPMAS), Cairo, Egypt.

The following table illustrates suppliers of consumer foods and edible fishery products:

SUPPLIERS OF CONSUMER FOODS AND EDIBLE FISHERY PRODUCTS			
PRODUCT	***LARGEST SUPPLIERS***	***MARKET SHARE (%)***	***U.S. MARKET SHARE (%)***
Fresh Veg.	China	95	0
Fresh Fruit	Lebanon Syria	41 16	14
Dried Fruit	Turkey France	60 14	1
Nuts	Turkey India	34 21	26
Coffee	Indonesia Brazil China Italy	48 16 13 4	1
Spices	Vietnam Singapore Sri Lanka	43 15 11	1
Red Meat Prepared	Brazil	93	0
Red Meat (fresh, chilled, frozen)	Brazil	71	0
Bovine, offals frozen	-------------	---------------	100
Frozen Fish	Netherlands Mauritania Ireland United Kingdom	46 13 12 8	0

PRODUCT	***LARGEST SUPPLIERS***	***MARKET SHARE (%)***	***U.S. MARKET SHARE (%)***
Other Food Preparations	Ireland Turkey Germany	15 11 7	18
Jams	Syria	84	0
Juices	Spain Cyprus Denmark	59 4 4	3
Sauces / Mayonnaise / Ketchup	India Oman Netherlands	19 9 8	34
Ice Cream	France Mexico	69 17	0
Beer	Netherlands	100	0
Wine	EEC France	68 8	10
Pet Food	Germany Australia	11 8	38
Pastas	Indonesia Italy	33 28	5
Cheese	Netherlands Denmark New Zealand France	47 6 9 2	0
Butter	New Zealand Netherlands Australia	50 16 11	0
Pasteurized Eggs	Germany Italy	56 17	10

Source: Central Agency for Public Mobilization and Statistics (CAPMAS)

IV. BEST PRODUCT PROSPECTS

A. Products in the market, which have good sales potential:

- Dressings, sauces and seasonings
- Apples
- Nuts and dried fruit
- Juices
- Salted snacks and potato chips
- Mexican food items

B. Products not present in significant quantities, but which have good sales potential:

- Microwave popcorn
- Cheese
- Candies
- Baking mixes
- Topping
- Pudding sauces
- Canned shrimps (not available at all)

C. Products not present in supermarkets because they face significant barriers:

- Wine (high custom tariff rate)
- Beer (High custom tariff rate)
- U.S. high quality beef (BSE Ban and a maximum of 7% fat content on imported beef)
- Turkey (modest quantities of processed turkey are imported)

V. POST CONTACT AND FURTHER INFORMATION

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Other References: www.usda.gov (Country,Egypt,Reports)

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- Exporter Guide / Report no. EG4025